

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name GRAYLING TOWNSHIP	County CRAWFORD
Fiscal Year End 06/30/07	Opinion Date 11/19/07	Date Audit Report Submitted to State 03/25/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	NONE REQUIRED	
Certified Public Accountant (Firm Name) KESKINE, COOK, MILLER & ALEXANDER, LLP		Telephone Number 989-732-7515	
Street Address 100 WEST FIRST STREET		City GAYLORD	State MI
		Zip 49735	
Authorizing CPA Signature 		Printed Name JEFFREY COOK	License Number 11876

**GRAYLING TOWNSHIP**  
**CRAWFORD COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

## **TOWNSHIP OFFICIALS**

Supervisor

Terry Wright

Clerk

Monica Ashton

Treasurer

Cyndi Olsen

## **TRUSTEES**

Shawn Kraycs

Dennis Long

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## **INDEPENDENT AUDITOR'S REPORT**

November 19, 2007

To the Township Board  
Grayling Township  
Crawford County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Grayling Township, as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and the major fund activity of the Grayling Township as of June 30, 2007, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-4 and budgetary comparison information on pages 18-21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Keskine, Cook, Miller & Alexander LLP".

Keskine, Cook, Miller & Alexander, LLP  
Certified Public Accountants

## **Management's Discussion and Analysis**

### **An addendum to Grayling Township's annual audit for fiscal 2006-2007**

As supervisor of the Charter Township of Grayling, (the "township"), I offer herein the township's financial statements, and narrative overview and analysis of those statements for our fiscal year ending June 30, 2007. I encourage consideration of the information presented here in conjunction with additional information that is furnished in the financial statements and audit.

#### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the township's basic financial statements, and also contains other supplementary information in addition to the financial statements themselves.

**Government-Wide Statement of Net Assets** - A fund designed to provide a broad overview of the township's finances, in a manner similar to a private sector business. This report provides information on all the township's assets and liabilities with the difference between the two reported as net assets. It also presents information showing how the township's net assets changed during the most recent fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the township is improving or deteriorating. As of June 30, 2007, the township's total net assets were \$1,780,267.

**Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balance** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific activities or objectives. The township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The township funds included the general fund, the improvement revolving fund and the liquor law enforcement fund. This statement focuses on spendable resources and balances of spendable resources available at the end of the fiscal year.

**General Fund Budgetary Highlights** – The general fund is the main operating fund for the township. The township improvement fund is used mainly for special non-budgeted projects outside the scope of general fund, such as implementation of a new special assessment for road work, and is not included in the general fund highlights below:

- Total general fund revenues for 2006-07 were \$1,052,014 and total expenditures were \$1,209,461 leaving a negative balance of \$157,447 in the general fund for this fiscal year. The total fund balance as of June 30, 2007 was \$327,277.
- Total township improvement fund revenues for 2006-07 were \$27,231 and total expenditures were \$99,676.
- The liquor law enforcement fund is designed as a zero-balance fund. All money collected for liquor inspections is paid to the inspector. As of June 30, 2007 revenues had exceeded expenditures by \$148, leaving a positive balance in this fund.
- The total of all expenditures exceeded revenues by \$229,744.
- As of June 30, 2007, the unreserved fund balance in the general fund was \$327,277, with \$99,851 in the township improvement fund, and \$4,907 in the liquor law enforcement fund.

- The township has reserved \$25,000 for replacement of its trash compactor at a future time.
- Of the township improvement fund balance, \$22,587 has been received from the U.S. National Forest Service for roads in the Huron National Forest.

2006-07 was a very productive year for the township with many ongoing and special projects making up the annual agenda.

On July 11, 2007, Grayling Township legally became the “Charter Township of Grayling” operating under a completely different set of Michigan laws. This move has encouraged the township to better plan for future services and provides limited boundary protection from annexation. Updates are currently being developed for the township Master Plan and all ordinances are being updated, when needed, to better reflect future needs.

Through the implementation of special assessment districts, the township continued to assist property owners in developing road maintenance and snowplowing programs. Currently 25 private roads are being maintained, at no expense to the township, to benefit nearly three-thousand township residents through assessment projects. Several areas also benefit from special assessment street lighting districts. Road maintenance and lighting assessments totaled \$120,789, paid out by the township and collected back from property owners at the end of 2006-07.

A committee has been established to study the different alternatives to financing our trash and recycling costs, and expects to have its final recommendation in the spring of 2008. A different funding mechanism will probably mean an increase in user fees to the general public, but should alleviate the large deficits this department has caused in past years.

**Fixed Assets and Debt Administration** – Grayling Township owns land, buildings, vehicles and equipment which are classified as fixed assets. The fixed values of township assets were determined by investigating insurance records, meeting minutes and prior audits. As of June 30, 2007, the estimated cost of all township fixed assets was \$2,140,386.

As of June 30, 2007, the total outstanding long-term debt for the fire station construction project of 2006 was \$399,581.

**Economic Factors and Next Year’s Budget** – The township continues to experience slight increases in property values despite difficult times for home sellers. Increases, especially on lands bordering lakes and streams continue steady, however, with approximately 85-percent of township lands held by the federal and state governments, until some of these lands are sold into private hands the tax base will continue to be comparatively low. At the same time, the township and county are expected to provide police, fire, ambulance, etc., services on their lands with very little tax revenue to offset the costs.

Due to the instability of future state shared revenues because of the unfavorable state-wide economic outlook, Grayling Township must continue to look for creative methods to deliver needed and wanted services.

The township general and improvement funds have adequate reserves to continue supporting current services; however, with township growth (more than 14-percent between 1990-2000) the board of trustees will have to continue looking very carefully at subsidized projects.

**Future Economic Factors and Township Resources** – As this report is being formulated, there are several significant, prospective economic development projects which could have a major impact on the future of Grayling Township, if they come to fruition. One will be a mega-venture which could change the look of the community and bring many, many jobs and many millions of dollars in investments into the township. Others will bring significant jobs on a lesser scale.

The Grayling Township Board of Trustees is keeping in close touch with developments on these projects as they unfold. They could be the key to making our township a major destination for tourists and/or add a major enhancement to our industrial base.

Any of these prospective projects will require services from the township, which may be able to be provided through the increase in property tax revenues.

**Requests for Information** – This report is designed to provide a general overview of the township's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to: Terry Wright, Supervisor; Grayling Township; PO Box 521; Grayling, MI 49738.

Respectively submitted by:

  
Terry R. Wright, Supervisor

Date 01/10/08



**GRAYLING TOWNSHIP  
STATEMENT OF NET ASSETS  
JUNE 30, 2007**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	
Cash	\$ 471,653
Capital Assets - net depreciation	1,392,395
Total Assets	1,864,048
<b>LIABILITIES</b>	
Road contracts payable	39,618
Debt service- Fire Department	44,163
<b>NET ASSETS</b>	
Investment in capital assets	1,348,232
Designated	25,000
Restricted	22,587
Undesignated, Unrestricted	384,448
Total net assets	\$ 1,780,267

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
<b>Functions/Programs</b>					
<b>Primary government</b>					
Governmental activities:					
General government	\$ (548,335)	\$ 8,711	\$ -	-	\$ (539,624)
Public safety	(394,780)	4,718	2,600	-	(387,462)
Public works	(324,545)	207,861	-	-	(116,684)
Community and economic development	(16,860)	4,465	-	-	(12,395)
Recreation and culture	(9,812)	-	-	-	(9,812)
Total government activities	<u>(1,294,332)</u>	<u>225,755</u>	<u>2,600</u>	<u>-</u>	<u>(1,065,997)</u>
<b>General Revenues:</b>					
Property taxes					218,862
Property tax administration fee					59,062
State shared revenue					442,807
Interest					29,459
Miscellaneous					2,745
Total general revenue					<u>752,935</u>
<b>Change in net assets</b>					(313,042)
<b>Net Assets - Beginning of Year</b>					<u>2,093,309</u>
<b>Net Assets - End of Year</b>					<u>1,780,267</u>

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	<u>GENERAL</u>	<u>IMPROVEMENT</u>	<u>LIQUOR</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash	\$ 160,915	\$ -	\$ 4,907	\$ 165,822
Investments	205,980	99,851	-	305,831
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 366,895</u>	<u>\$ 99,851</u>	<u>\$ 4,907</u>	<u>\$ 471,653</u>
 <b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Road Contracts Payable	\$ 39,618	\$ -	\$ -	\$ 39,618
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>\$ 39,618</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,618</u>
<b>Fund Balance</b>				
Designated	-	25,000	-	25,000
Restricted	-	22,587	-	22,587
Undesignated, Unrestricted	\$ 327,277	\$ 52,264	\$ 4,907	\$ 384,448
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balance	<u>\$ 327,277</u>	<u>\$ 99,851</u>	<u>\$ 4,907</u>	<u>\$ 432,035</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balance	<u>\$ 366,895</u>	<u>\$ 99,851</u>	<u>\$ 4,907</u>	<u>\$ 471,653</u>

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP  
RECONCILIATION OF GOVERNMENTAL FUND'S BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007**

<b>Total fund balance - Governmental funds (per balance sheet - page 9)</b>	<b>\$ 432,035</b>
Amounts reported for governmental activities in Statement of Net Assets (page 7) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not used in the funds	1,348,232
<b>Change in net assets of governmental activities (per Statement of Activities - page 8)</b>	<hr/> 1,780,267 <hr/>

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2007**

	<u>GENERAL</u>	<u>IMPROVEMENT</u>	<u>LIQUOR</u>	<u>TOTAL</u>
<b>REVENUES</b>				
Taxes and Penalties	\$ 277,924	-	-	277,924
Licenses and Permits	97,755	-	-	97,755
State Revenue Sharing	432,117	-	1,721	433,838
Charges for Services	101,337	-	-	101,337
Interest	25,114	4,345	-	29,459
Other Revenue	34,695	6,282	-	40,977
	<u>968,942</u>	<u>10,627</u>	<u>1,721</u>	<u>981,290</u>
<b>EXPENDITURES</b>				
General Government	489,549	-	1,573	491,122
Public Safety	356,985	-	-	356,985
Public Works	324,545	-	-	324,545
Community and Economic Development	16,860	-	-	16,860
Recreational	9,812	-	-	9,812
Other Expenditures	11,710	-	-	11,710
	<u>1,209,461</u>	<u>-</u>	<u>1,573</u>	<u>1,211,034</u>
Excess (Deficiency) of Revenues Over Expenditures	(240,519)	10,627	148	(229,744)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In/(Out)	83,072	(83,072)	-	-
	<u>(157,447)</u>	<u>(72,445)</u>	<u>148</u>	<u>(229,744)</u>
Excess (Deficiency) of Revenues and Other Sources over (under) Expenditures and Other Uses				
	<u>484,724</u>	<u>\$ 172,296</u>	<u>\$ 4,759</u>	<u>\$ 661,779</u>
<b>FUND BALANCE- BEGINNING OF YEAR</b>				
	<u>\$ 327,277</u>	<u>\$ 99,851</u>	<u>\$ 4,907</u>	<u>\$ 432,035</u>
<b>FUND BALANCE- END OF YEAR</b>				

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2007**

<b>Net change in fund balances - Governmental activities (page 11)</b>	\$ (229,744)
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Amounts reported for governmental activities in Statement of  
Activities are different because:

Depreciation expense is recorded in the government-wide statements but not in fund financial statements	(83,298)
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<b>Change in net assets of governmental activities (per Statement of Activities - page 8)</b>	<u>(313,042)</u>
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See accompanying notes to financial statements.

**GRAYLING TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE A: ENTITY**

The Township of Grayling was formed prior to 1875 under general township laws and covers an area of approximately 180 square miles in Crawford County, Michigan. The township operates under an elected Board comprised of a supervisor, clerk, treasurer and two trustees and it provides services in many areas including fire protection, cemetery, compactor station, public road improvements, street lighting, township park, community development and general administrative services.

Grayling Township contracts with the City of Grayling to provide fire protection and cemetery space for township residents. The township contributes funds for the purchase of assets and in accordance with the contract; the township owns fifty percent of the assets. The financial statements of these city funds are not included in this report. Audited financial statements for these funds are included in the City of Grayling audit each year.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of the Grayling Township are discussed in subsequent sections of this Note. The remaining notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of the Grayling Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**FUND FINANCIAL STATEMENT PRESENTATION**

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

*General Fund* - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

**GRAYLING TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND TYPES AND MAJOR FUNDS (CONTINUED)**

The Township reports the following non major governmental funds:

*Improvement Fund* - This fund was established by the Grayling Township Board to fund future improvements as determined annually by the township board.

*Liquor Fund* – This fund was established by regulatory provisions to account for liquor fees received to be used for the enforcement of liquor laws of the State of Michigan.

***Fiduciary Funds***

These funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township maintains a tax collection fund in this category.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred and payment is approved by the Township Board, except for interest which is reported as expenditures in the year due.



**GRAYLING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on September 15; uncollected amounts are subsequently added to the county delinquent tax rolls. In accordance with GASB 33 "Accounting and Financial Reporting for Non-exchange Transactions", the Township records the property tax revenue on the lien date when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on July 1, 2006, are recorded as revenue in the current year.

Property taxes were levied as follows for the year ended June 30, 2007:

General	8.7680 mills
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**BUDGETS**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The approved budgets of the Township for budgetary funds were adopted on a fund level using the modified accrual basis. Budgets are normally formulated and a budget hearing is held during the month of June of each year.

The council normally adopts the budget just prior to July 1. Amendments are made to the budgets when determined to be necessary throughout the year. We noted no overexpenditures during the year.

Budgets are not required for fiduciary fund.

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

**GRAYLING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION**

The Townships property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$100 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated useful lives for depreciable assets range from 2-40 years.

For information describing capital assets, see Note F.

**NOTE C: CASH AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 f 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The Township has a common bank account to pool various cash funds for the Trust and Agency Fund and the Liquor Law Enforcement Fund. The various funds' equity at June 30, 2007 was as follows:

	<b>Common Checking</b>
Trust and Agency Fund	\$ -
Liquor Law Enforcement Fund	4,907
	<u>\$ 4,907</u>

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. All Township investments are either held in a money market account or in certificates of deposits at local banks. State statutes prohibit security in the form of collateral, surety bonds or another from be taken for the

**GRAYLING TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE C: CASH AND INVESTMENTS (CONTINUED)**

deposit of public funds. The Township has adopted deposits and investment policy which are in accordance with statutory authority. Investments in certificates of deposits, money market accounts, and a Treasury Portfolio income trust which is exclusively United States Treasury obligations are stated at cost which approximates market value.

As of June 30, 2007, the deposits and investments were reported in the basic financial statements in the following categories:

Governmental activities	\$471,653
Fiduciary funds	<u>0</u>
	<u>\$471,653</u>

The Township's cash and investments consist entirely of bank deposits as follows:

Bank deposits- checking accounts	\$165,822
Certificates of deposit and money markets	<u>305,831</u>
Total	<u>\$471,653</u>

**Deposits**

The bank balance of the Township's checking and investment deposits is \$472,011 of which \$204,576 is covered by federal depository insurance. The remainder amount of \$267,435 was uninsured and uncollateralized. The Township invests its General Fund checking account in a sweep account at the bank which had a balance of \$161,067 as of June 30, 2007. The collected funds of this account are deposited or withdrawn on a daily basis by the bank in an income trust fund which invests exclusively in U.S. Treasury obligations. The moneys in this account are not covered by federal depository insurance.

**NOTE D: CAPITAL PROJECTS FUND**

The Township has an agreement with the City of Grayling to provide fire protection. In 2003, the Township agreed to provide 50% of the funds required to construct a new fire station for the joint use of each governmental unit. The City manages the Fire Department with the Township contributing funds based on an operating agreement approved by each municipality. Currently the operating agreement is under review and no resolution has been agreed upon by the Township and the City. The Township signed an installment agreement and promissory note with AuSable Construction Co. was assigned Citizens Bank for \$510,000 which was deposited in an escrow account with Crawford County Abstract & Title of Grayling, Michigan. The Township contributed additional funds for the project. The project is now completed.

**GRAYLING TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE E: CONTRACT PAYABLE**

The contract assigned by AuSable Construction Co. to Citizens Bank for \$510,000 requires quarterly payments of \$11,041 including interest at 3.55% with a balloon payment due June 27, 2010 of \$316,778. The balance on the note as of June 30, 2007 is \$399,581. The payments are budgeted in the Fire Department of the General Fund. Scheduled payments are as follows:

<u>Year Ended</u>	<u>Payments</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
June 30, 2008	44,163	14,021	30,142	369,439
June 30, 2009	44,163	12,883	31,280	338,159
June 30, 2010	349,901	11,742	338,159	0

**NOTE F: CAPITAL ASSETS**

The Township's capital assets have costs that are either actual or estimates from deeds, township minutes, insurance records and prior audit reports. The Township has not adopted a detailed capitalization policy, though; history has shown capitalization of assets acquired for \$100 or more. The Township's capital assets as of June 30, 2007 are as follows:

Land and land improvements	\$ 77,874
Buildings	
Township Hall	283,159
Compactor and Recycling Station	64,807
Township Park	64,000
Fire Hall	518,625
Equipment	
Township Hall	109,878
Compactor and Recycling Station	115,139
Township Park	197,068
Fire Hall	695,449
Vehicles	<u>14,387</u>
Total	<u><u>\$ 2,140,386</u></u>

**NOTE G: PENSION PLAN**

The Township contributes to a defined contribution pension plan covering substantially all of its employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amounts of benefits the individual is to receive. Under the Township's defined

**GRAYLING TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE G: PENSION PLAN (CONTINUED)**

contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

The plan requires the Township to contribute 12% of the eligible employee's wages. During the year the Township contributed \$33,480 to the plan. The plan is fully funded by the purchase of investments selected by each employee with 100% vesting immediately. John Hancock is the trustee and custodian of the funds. No pension provision changes occurred during the year that affected the required contributions to be made by the Township.

**GRAYLING TOWNSHIP**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2007**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUES</b>				
Taxes and Penalties				
Taxes- Real & Property	\$ 171,000	\$ 171,000	\$ 159,903	\$ (11,097)
Trailer Park Fees	300	300	-	(300)
Payments in Lieu of Taxes	47,000	47,000	48,903	1,903
Penalties and Interest on Taxes	20,000	20,000	10,056	(9,944)
Tax Adminsitration Fee	60,000	60,000	59,062	(938)
Total Taxes and Penalties	298,300	298,300	277,924	(20,376)
Licenses and Permits				
Metro Act Payment	9,700	9,700	8,969	(731)
Cable Franchise Fees	14,000	14,000	12,207	(1,793)
Building Permits	65,715	65,715	48,393	(17,322)
Electrical Permits	16,000	16,000	12,973	(3,027)
Plumbing Permits	8,000	8,000	5,802	(2,198)
Mechanical Permits	13,000	13,000	9,241	(3,759)
Fire Plan Review Fees	2,000	2,000	170	(1,830)
Total Licenses and Permits	128,415	128,415	97,755	(30,660)
State Revenue Sharing	464,500	464,500	432,117	(32,383)
Charges for Services				
Filing Fees	6,500	6,500	4,465	(2,035)
Summer Tax Collection	40,100	40,100	7,634	(32,466)
School Elections Charges	2,100	2,100	1,077	(1,023)
Compactor Station Fees	85,000	85,000	86,413	1,413
Fire Department Runs	4,000	4,000	1,748	(2,252)
Total Charges for Services	137,700	137,700	101,337	(36,363)
Interest	7,000	7,000	25,114	18,114
Other Revenue				
Enviromental Grants	8,000	8,000	2,600	(5,400)
Ordinance Enforcement Fines	1,000	1,000	2,800	1,800
Other Revenue	1,000	1,000	2,359	1,359
Recyclables Sales	16,000	16,000	18,550	2,550
Recycling - County	13,000	13,000	8,000	(5,000)
Reimbursements, Refunds, Rebates	10,000	10,000	386	(9,614)
Total Other Revenue	49,000	49,000	34,695	(14,305)
Total Revenue	1,084,915	1,084,915	968,942	(115,973)
Other Financing Sources	116,481	83,072	83,072	-
Total Revenue and Other Financing Sources	\$ 1,201,396	\$ 1,167,987	\$ 1,052,014	\$ (115,973)

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2007**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>EXPENDITURES</b>				
General Government				
Governing Body Fees	4,200	4,200	3,496	(704)
Supervisor	75,099	78,499	78,471	(28)
Clerk	60,310	61,210	61,185	(25)
Information Technology	14,700	14,700	13,926	(774)
Board of Review	800	800	392	(408)
Other General Services	30,000	29,950	44,889	14,939
Treasurer	50,485	43,685	43,587	(98)
Assessor	70,083	70,083	67,684	(2,399)
Elections	9,300	8,100	6,918	(1,182)
Township Offices	125,771	127,771	118,228	(9,543)
Attorney and Court Fees	8,000	8,000	6,621	(1,379)
Cemetary	57,939	57,939	44,152	(13,787)
Total General Government	506,687	504,937	489,549	(15,388)
Public Safety				
Law Enforcement	37,523	67,505	63,980	(3,525)
Fire Department	178,345	178,345	187,543	9,198
Building Inspector	105,856	105,856	105,462	(394)
Total Public Safety	321,724	351,706	356,985	5,279
Public Works				
Road Improvements	124,819	90,819	112,843	22,024
Street Lighting	12,000	9,750	7,946	(1,804)
Compactor Station	198,800	203,800	203,756	(44)
Total Public Works	335,619	304,369	324,545	20,176
Community and Economic Development				
Planning Commission	2,942	2,942	2,140	(802)
Zoning Board	2,942	2,942	2,003	(939)
Economic Development	10,300	13,300	12,717	(583)
Total Community and Economic Developeme	16,184	19,184	16,860	(2,324)
Recreational- Parks	17,200	17,200	9,812	(7,388)
Other Expenditures-Insurance & Bonds	17,000	17,000	11,710	(5,290)
Total Expenditures	1,214,414	1,214,396	1,209,461	(4,935)
Excess (Deficiency) of Revenues over Expenditures	(13,018)	(46,409)	(157,447)	(111,038)
<b>Fund Balance- Beginning of Year</b>	484,724	484,724	484,724	-
<b>Fund Balance- End of Year</b>	<b>\$ 471,706</b>	<b>\$ 438,315</b>	<b>\$ 327,277</b>	<b>\$ (111,038)</b>

See accompanying notes to financial statements.

**GRAYLING TOWNSHIP  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
IMPROVEMENT FUND  
YEAR ENDED JUNE 30, 2007**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUE</b>				
Interest	\$ 12,000	\$ 12,000	\$ 4,345	\$ (7,655)
Other Revenue	-	-	6,282	6,282
Total Revenue	12,000	12,000	10,627	(1,373)
Other Financing Sources	-	-	16,604	16,604
Total Revenue and Other Financing Sources	12,000	12,000	27,231	15,231
<b>EXPENDITURES</b>				
Other Financing (Uses)	(116,481)	(116,481)	(99,676)	16,805
Total Expenditures and Other Financing (Uses)	(116,481)	(116,481)	(99,676)	16,805
Excess (Deficiency) of Revenues over Expenditures	(104,481)	(104,481)	(72,445)	32,036
<b>Fund Balance- Beginning of Year</b>	177,707	177,707	172,296	-
<b>Fund Balance- End of Year</b>	<u>\$ 73,226</u>	<u>\$ 73,226</u>	<u>\$ 99,851</u>	<u>\$ 26,625</u>

See accompanying notes to financial statements.



**GRAYLING TOWNSHIP**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**LIQUOR FUND**  
**YEAR ENDED JUNE 30, 2007**

	<b>ORIGINAL BUDGET</b>	<b>FINAL AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FROM FINAL AMENDED BUDGET</b>
<b>REVENUE</b>				
Interest	\$ 2,160	\$ 2,160	\$ 1,721	\$ (439)
Total Revenue	2,160	2,160	1,721	(439)
<b>EXPENDITURES</b>				
Liquor Inspection Fees	2,160	2,160	1,440	(720)
Miscellaneous/Other	-	-	133	133
Total Expenditures	2,160	2,160	1,573	(587)
Excess (Deficiency) of Revenues over Expenditures	-	-	148	148
<b>Fund Balance- Beginning of Year</b>	4,614	4,614	4,759	-
<b>Fund Balance- End of Year</b>	<u>\$ 4,614</u>	<u>\$ 4,614</u>	<u>\$ 4,907</u>	<u>\$ 293</u>

See accompanying notes to financial statements.

November 17, 2007

Grayling Township Board  
Grayling, Michigan

We have audited the financial statements of the Grayling Township for the year ended June 30, 2007, and have issued our report thereon dated November 17, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Grayling Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Grayling Township are described in the notes to the financial statements.

We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached pages summarize the adjustments that were proposed to management and made to the audited financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Fire Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Difficulties Encountered in Performing the Audit**

The Grayling Township's accounting records were well organized and we are happy to report that there were no difficulties in performing the audit.

### **Comments and Recommendations**

In planning and performing our audit of the financial statements of the Grayling Township, we noted no items requiring comment.

This information is intended solely for the information of the Grayling Township's Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Keskine, Cook, Miller & Alexander, LLP